



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 28, 2004

H.R. 4065 **Veterans Housing Affordability Act of 2004**

As introduced on March 30, 2004

SUMMARY

H.R. 4065 would increase the maximum amount that the Department of Veterans Affairs (VA) can guarantee on a home loan made to a veteran by indexing this amount to the Freddie Mac conforming loan limit. CBO estimates that enacting the legislation would lower direct spending for the VA housing program by \$280 million over the 2005-2014 period, but would not affect administrative expenses for the program, which are provided for in annual appropriations acts.

H.R. 4065 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4065 is shown in the following table. The direct spending savings of this legislation fall within budget function 700 (veterans benefits and services).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | |
|-----------------------------------|--|------|------|------|------|------|------|------|------|------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| CHANGES IN DIRECT SPENDING | | | | | | | | | | |
| Estimated Budget Authority | -37 | -38 | -40 | -40 | -41 | -46 | -42 | -1 | -1 | 6 |
| Estimated Outlays | -37 | -38 | -40 | -40 | -41 | -46 | -42 | -1 | -1 | 6 |

BASIS OF ESTIMATE

H.R. 4065 would increase the maximum loan guarantee amount on VA home loans by indexing this amount to the Freddie Mac conforming loan limit, which is adjusted annually to reflect home prices. Under current law, the maximum loan guaranty is \$60,000 which effectively creates a maximum loan amount of \$240,000. (For large loan amounts, VA can guarantee no more than 25 percent of the loan amount.) The bill would raise the maximum loan guarantee amount to 22.5 percent of the Freddie Mac conforming loan limit (\$333,700 in 2004).

The bill would lower direct spending on the veterans' housing program by \$196 million over the 2005-2009 period and \$280 million over the 2005-2014 period, but these estimated savings are the net effect of three individual program effects (two with savings and one with costs), as explained below.

Based on information from VA and previous increases in the loan guaranty amount, CBO estimates that the bill would result in 10,000 new guaranteed loans a year over the 2005-2014 period. In addition, roughly 4,000 guaranteed loans each year would now be made with higher loan amounts—these would not be new borrowers, but veterans who would no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate of about -0.3 percent, reflecting relatively low default rates and up-front fees that together produce a negative subsidy rate.

CBO estimates that the added loans would lower direct spending on guaranteed loans by an average of \$40 million a year over the 2005-2011 period and by \$1 million a year in 2012 and 2013 (the guaranteed loan housing program has a negative subsidy rate over this period), and increase direct spending by \$5 million in 2014. Savings would fall significantly after 2011 because, under current law, certain loan fees expire in 2012, resulting in higher subsidy rates beginning in that year.

Second, CBO expects some of those 14,000 loans will become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. CBO estimates that the added vendee loans would lower direct spending by less than \$500,000 in 2005 and would eventually reach \$3 million in 2014 (the vendee program also has a negative subsidy rate).

Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such

loan sales would be less than \$500,000 through 2007 and would eventually reach \$4 million in 2014.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2065 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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